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SUBJECT: THE ATTALI REPORT: A NEW PATH TO REFORM AND GOVERNING

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Summary

1. (SBU) President Sarkozy on January 23 pledged to enact -- with three exceptions -- recommendations for spurring economic growth devised by a commission headed by Jacques Attali, former political adviser to Socialist President Mitterrand. These proposals range from boosting competition in the retail sector, to deregulating certain professions, developing the digital, biotech, and environmental technology sectors, creating a leaner state and building high-tech green cities. The Attali Commission estimates the measures, if implemented as a package, could raise potential growth by one percentage point and reduce unemployment to 5 percent by 2012. The Attali imprimatur on a series of mostly sensible reform proposals is not inconsequential, and consensus from this politically-disparate group provides a level of cover to further reform efforts. But Attali's imperious style has rubbed politicians of all stripes the wrong way, and his "take-it-or-leave-it" approach to his commission's recommendations has fostered resentment within Parliament -- including in Sarkozy's UMP party -- for short-circuiting the political process. PM Fillon convoked an intergovernmental seminar on February 1 to discuss implementation of the Attali measures and promised that action would be taken "in consultation with social partners, economic partners, and elected officials." That, combined with opposition of vested interests -- the taxi drivers have already been on strike twice -- will at the very least slow Attali's ambitious timetable of implementation by 2009. End Summary.

"What you propose I shall carry out"...

2. (SBU) President Sarkozy appears invested in the economic reform recommendations of the Attali Commission, established last May to find ways to "unleash the economic growth that France is lacking." On January 23 Sarkozy presented his comments to Attali and 42 members of a commission that included CEOs, economists, journalists and foreign luminaries, such as former EU Competition Commissioner Mario Monti. Commissioners who were present tell us Sarkozy cast aside prepared remarks and spoke off the cuff for over an hour, indicating to them that the president had internalized much of the report's content.

3. (SBU) Sarkozy vowed to carry out "the best part" of the Commission's proposals, centered on eight themes or "ambitions" ranging from educational reform to development of the digital, health, biotech, environment and services sectors (including a call for nation-wide ADSL coverage by 2016 and appointment of a High Commissioner for Digital Development, placed directly under the PM). Among the more politically-challenging proposals are those that call for further labor market liberalization, including changes to union representation rules and a series of recommendations liberalizing product and service markets.

Boosting Competition

¶4. (U) Attali pulled few punches in the introduction to his report, saying "rent-seeking is triumphant" in France, as evidenced by the country's "real estate fortunes, collusion among the privileged and in recruitment of the elite." The commission's response is to boost competition and overhaul France's most heavily-regulated service sectors (including notaries, hair dressers, taxi drivers and pharmacists). France has already had a taste of potential opposition to such measures. Some 25,000 taxi drivers throughout France staged one-day protests on January 30 and February 5 against the Attali proposals to increase the number of taxis by issuing out free licenses to new cab drivers.

¶5. (SBU) Largely absent from the report are recommendations targeting what Attali terms "collusion among the privileged." For example, an Attali commission member told us a proposal to do away with France's "grand corps," the network of technocrats coming out of France's premier universities who continue to dominate key positions in government ministries and (still) business, had been mooted. But Areva Chairman (and commission member) Anne Lauvergeon's vigorous defense of the institution had helped to shoot it down. (Comment: Indeed, Figaro economic editorialist Yves de Kerdrel, also an Attali commission member, told us recently the current reform efforts -- and to some extent the Attali recommendations -- targeted important foundational change, but left untouched France's economic superstructure, which was in equal need of change. End comment.)

¶6. (SBU) The Attali report also calls for reinforcing France's competitive environment by merging the Finance Ministry's Directorate for Consumer Affairs, Anti-Fraud and Competition (DGCCRF) into the independent Competition Council. The latter would become France's sole authority on competition issues with its authority reinforced. Competition Council President (and Attali commission member) Bruno Lasserre told us he believes the move would

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send an important signal on the importance of open competition to boosting consumer welfare. He noted, however, that Finance Minister Lagarde opposes the idea and intimated that follow-through would be difficult.

¶7. (U) Improving the competitiveness of SMEs is a central theme of the Attali report. One proposal calls for a one-stop shop business service for small and very small firms to facilitate adherence to administrative procedures and complicated legislative requirements. The report points out that going from 49 to 50 employees requires compliance with an additional 34 new laws and regulations. The Attali Commission estimates the cost of such procedures at 4 percent of the average company's labor-related expenditures.

Liberalizing the Labor Market - - - - -

¶8. (U) The Attali report proposes a number of measures to liberalize France's labor market, some of which the Sarkozy government has already set in motion. The report recommends the end of mandatory retirement at 65. It also calls for new financing and representation rules that would end the monopoly currently enjoyed by France's five labor unions in negotiating national agreements on labor law and financing of the French healthcare system. (Comment: Sarkozy has tasked business and the unions to negotiate an agreement on this issue by March 31. End comment.) In one of its more controversial measures the Attali commission proposes liberalizing immigration rules to encourage greater numbers of foreign workers. While Sarkozy was silent on the recommendation in his remarks, the president did highlight recommendations that encourage labor force participation, noting in particular that early retirement schemes were a thing of the past.

¶9. (U) Training and contract reform are key elements of the Commission's report. In his remarks on the report Sarkozy claimed victory for having encouraged unions and employers to negotiate an agreement on labor contracts (reached January 13) making it easier for employers to shed staff in return for higher severance pay and easier access to benefits in between jobs. On training, the report

calls for paid training and a variety of adult education initiatives, concluding that "(if) the appetite for risk is an irreplaceable motor (of the economy), protecting those who take risk is its condition."

Reform of the State

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¶10. (SBU) The report makes a number of recommendations for reducing the size of the public sector, including doing away with redundant levels of regional government. The Commission claims the moves would help to reduce French public debt to 55% of GDP by 2012 (from the current rate of 66%). The commission proposes 10 new e-government programs (for hiring, payment of payroll taxes, etc) that, it says, would save the GOF some 15 billion euros per year (Comment: At nearly 40% of France's 2007 budget deficit, the figure strains credibility. End comment.) Although we understand there was consensus on the importance of putting France's fiscal house in order, Commission members tell us the group could not agree on more specific measures for cutting expenditures. Scrapping of the existing employment guarantee for civil servants was proposed, but Attali took it off the table at the last minute as politically untenable. For his part, Sarkozy promised to continue reform of the State, pointing to the 23,000 civil servant jobs that he said would not be renewed this year.

Sarkozy's Exceptions

¶11. (SBU) The intense fourth months of activity of the Attali Commission were carefully orchestrated by Attali himself and Elysee Chief of Staff, Claude Gueant. A member of the Commission informed us that Attali and Gueant were in daily contact to ensure that only those proposals "politically acceptable" to Sarkozy would make it into the final report. As a result members of the Commission self-censored certain proposals, particularly on tax issues.

¶12. (SBU) In part to add credibility to the process, three "unacceptable" proposals made it into the report. Sarkozy rejected a recommendation to scrap the precautionary principle, which has been enshrined in the French Constitution since 2005. He could not one day support sustainable development and the next do away with the precautionary principle, a symbol of "vigilance, transparency and responsibility." "I would not be understood or appear coherent."

¶13. (SBU) Sarkozy further discarded the idea of abolishing France's 99 departments. The French are simply "not ready," he said, and such a move was not essential to achieving greater growth. Finally Sarkozy said he did not oppose the principle of deregulating France's pharmacies and limiting their current monopoly on prescription and over-the-counter medicines. But as President he had to take into account the "public service rendered by pharmacies"

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in small villages.

Next Steps

¶14. (SBU) As suggested by the Attali Commission, the recommendations would have to be fully implemented by June 2009 to have an impact by ¶2012. A first bill on the modernization of the economy will be presented by Economy, Finance and Employment Minister Christine Lagarde in the spring. The contents of the bill are not yet known, though it is likely to incorporate a number of the Attali report recommendations.

¶15. (SBU) PM Fillon held an inter-ministerial seminar on February 1 to strategize over the GOF's approach to implementing the Attali report recommendations. His public remarks following the meeting were conciliatory, saying recommendations would be put in place only after consultations with relevant parties had taken place. Each ministry would propose an "action plan" for implementing various aspects of the report, and joint working groups between the National Assembly and the government would be established to inform next

steps. For his part, President Sarkozy will host follow-up meetings of the Commission every three months, with the first one announced for March 29.

Parliament hostile on form rather than content

¶16. (SBU) Fillon's olive branch comes in response to opposition from French Parliamentarians of all parties, as much over form as over content. The method of governing through Presidential-appointed Commissions has irked many Parliamentarians who believe their role as lawmakers has been diluted. Attali's insistence that his recommendations be taken as a whole package, combined with his personal attacks against two eminent members of Parliament, did little to allay their concerns.

Comment

¶17. (SBU) The optimistic view of most observers here is that only half of the Attali recommendations will actually be implemented. Strained relations with parliament over the report do not help its prospects, and PM Fillon's focus on the consultative process could push more difficult recommendations well over the horizon. Still, the report represents a remarkable set of recommendations coming from the former Mitterrand advisor, and it provides a degree of political cover for reforming almost all areas of the economy. Despite considerable skepticism about the process, Sarkozy's intention to reconvene the group every three months indicates the commission's shelf-life will be longer than most. Nevertheless, with the economy softening and municipal elections around the corner, we expect the report's more controversial elements to take a back seat to populist tub-thumping in the near term.
Stapleton